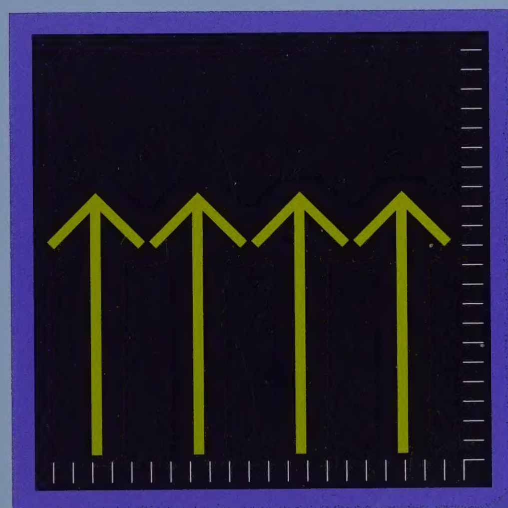
TRANSALTA POWER, L.P. ANNUAL REPORT 2001

TransAlta

...as we move forward



Stability continues...

CORPORATE PROFILE TransAlta Power, L.P. (TransAlta Power) owns a 49.99 per cent interest in TransAlta Cogeneration, L.P. (TA Cogen), which wholly owns three Ontario cogeneration facilities and a 60 per cent interest in the Fort Saskatchewan, Alberta cogeneration plant. TransAlta Energy Corporation (TEC), a wholly owned subsidiary of TransAlta Corporation (TAC), owns the remaining 50.01 per cent interest in TA Cogen and is responsible for the operation and maintenance of the plants. The Ontario plants have a total generating capacity of 248 megawatts (MW) of electric power. Electricity from the plants is sold to Ontario Electricity Financial Corporation under long-term contracts; steam and other thermal energy produced is supplied to manufacturing plants and other facilities. The Fort Saskatchewan plant has a total generating capacity of 120 MW. Electricity and steam from this plant are sold to Dow Chemical Canada Inc. (Dow Chemical) under a long-term contract.

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More stability means more certainty.

IT'S WHAT TRANSALTA POWER IS ALL ABOUT.

Like the power we sell to our customers, the cash generated by our plants has flowed steadily to investors for the past four years. TransAlta Power was created to provide a stable, tax-advantaged vehicle to our unitholders. The addition of a fourth generating plant in 2001 ensures continued cash flow into the future.

2001 highlights

INCREASED DISTRIBUTIONS

Increased cash distributions to $0.7345 per unit in 2001 from $0.70 per unit in 2000, due to stronger earnings and the addition of a fourth power plant.

MONTHLY DISTRIBUTIONS

TransAlta Power converted from variable quarterly cash distributions to equal monthly distributions in the third quarter of 2001.

TAX-DEFERRED DISTRIBUTIONS

Cash distributions continued to provide a fully tax-deferred return for unitholders in 2001. This is expected to continue at least through 2004.

GROWTH

On Sept. 30, 2001, TA Cogen acquired a 60 per cent interest in the 120 MW natural gas-fired cogeneration facility in Fort Saskatchewan from a wholly owned subsidiary of TEC for $70.0 million.

NEW ISSUE

TransAlta Power issued an additional 4.5 million units at $8.50 per unit in September 2001, bringing the total units outstanding to 34.0 million units. Net proceeds from the issuance were $36.1 million.

INCREASED REVENUES

In 2001, revenues increased significantly due to the addition of the Fort Saskatchewan plant and higher power revenues from the Ontario plants.

HIGH AVAILABILITY AND SALES

The plants had an average availability of 97.8 per cent and produced 1.9 million megawatt hours of energy and 1.5 billion pounds of steam.

To our unitholders

TransAlta Power's primary objective is to provide stable cash distributions to unitholders based on the performance of our underlying electricity generating assets. We are pleased to report that during 2001 we continued to meet this objective and increased cash distributions as a result of the strong earnings performance and the addition of another cogeneration plant.

Our September 2001 acquisition of a 60 per cent interest in the Fort Saskatchewan, Alberta natural gas-fired cogeneration plant brings the number of generating plants in the partnership to four. This 120 MW plant is owned and operated through a joint venture with Air Liquide Canada Inc. and managed by TEC. The acquisition of a new asset enabled us to increase cash distributions.

Higher electricity prices in Ontario, where 78 per cent of our assets are located, translated into increased net income for TransAlta Power, despite the effects of higher gas costs on our operations. Looking towards 2002, we expect cash flow to remain stable largely as a result of the long-term contracts we have in place.

We will continue to pursue growth opportunities. Assets we will consider purchasing are subject to a number of criteria: they must be consistent with our current risk profile; have been in service longer than one year; provide predictable cash flow and output must be contractually secured.

Cash distributions to unitholders are currently fully tax-deferred and we expect them to remain so until 2004.

We are satisfied with the progress of TransAlta Power and we will continue to strive to meet your expectations as our investors.

T. Iain Ronald
CHAIR OF THE BOARD

Ian A. Bourne
PRESIDENT & CEO

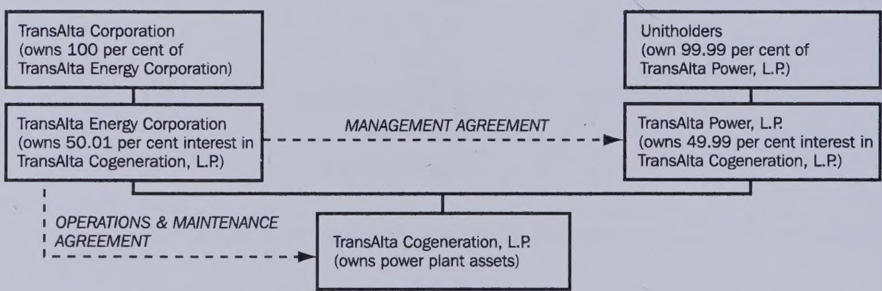
Review of operations

BACKGROUND

During the late 1980s, a number of provincial governments and publicly owned utilities established programs to actively seek the purchase of electricity from independent power producers. These programs were prompted by environmental concerns, rapid growth in anticipated electricity demand, rising electricity rates, new technologies and growing international competition. The programs contemplated that the electricity produced by independent power producers would be supplied under long-term power purchase contracts using rates that mirrored the projected long-term value of the electricity to the power system. At the same time, the steam from those power plants with cogeneration capability would be sold to industrial or commercial operators. This would improve the power plants' efficiency of the fuel used to generate electricity and reduce overall costs. The power plants owned and operated by TA Cogen operate within such programs. The three Ontario cogeneration plants are under contract with Ontario Electricity Financial Corporation (OEFC) for the electricity produced while providing steam to the hosts of the various plants. The Fort Saskatchewan, Alberta cogeneration plant provides both power and steam to the Dow Chemical manufacturing site (the Dow Site) facility under a contract similar to that described above.

PARTNERSHIP STRUCTURE

TransAlta Power owns a 49.99 per cent interest in TA Cogen, which wholly owns three Ontario cogeneration facilities and a 60 per cent interest in the Fort Saskatchewan cogeneration plant. TEC, a subsidiary of TAC, and the general partners have an indirect 50.01 per cent partnership interest in TA Cogen. TEC is responsible for the operation and maintenance of the plants. Throughout this report, references to TransAlta Power represent this 49.99 per cent ownership interest in the power plant assets.



The structure of TransAlta Power is designed to align the interests of TAC and TransAlta Power unitholders.

WHAT IS COGENERATION?

The term cogeneration refers to the simultaneous production of power and useful heat from one fuel source. In a typical cogeneration plant, a natural gas-fired turbine generates electrical power and the heat produced is recovered and used to produce steam. The steam is used for an industrial process or, in the case of combined-cycle plants, to generate additional electricity through a steam turbine.

POWER PLANT ASSETS

Fort Saskatchewan

On Sept. 30, 2001, TEC sold its 60 per cent interest in the 120 MW Fort Saskatchewan combined-cycle cogeneration facility to TA Cogen for $70.0 million. The Fort Saskatchewan plant, a joint venture with Air Liquide Canada Inc., provides electricity and steam to Dow Chemical's facility in Fort Saskatchewan.

On June 30, 2017, TransAlta Power has the option to purchase the Fort Saskatchewan plant from TA Cogen at the then fair market value as determined by independent valuators. On July 31, 2017, if TransAlta Power does not exercise the option, TA Cogen has the right to put the Fort Saskatchewan plant to TransAlta Power at a price equal to the book value. If neither the option nor the put are exercised, TA Cogen is obligated, at TransAlta Power's expense, to use commercial efforts to sell the Fort Saskatchewan plant on or before Dec. 18, 2018.

The Fort Saskatchewan plant is located on approximately 0.8 hectares (two acres) of land within the Dow Site in Fort Saskatchewan, Alberta. The facility has an electrical capacity rating of 120 MW and supplies the electricity requirements of the Dow Site. Dow Chemical has granted a licence and agreed to lease the lands where the Fort Saskatchewan plant is located for an initial term of 20 years that expires on Nov. 30, 2019.

Megawatts	120
Electricity sales	Dow Chemical until 2019
Steam sales	Dow Chemical until 2019
Gas supply	Dow Chemical until 2019

Ottawa

The Ottawa plant is a combined-cycle cogeneration facility designed to produce 68 MW of electrical energy. The 68 MW are contracted under a firm supply contract to OEFC. The Ottawa plant also supplies thermal energy to the member hospitals and treatment centres of the Ottawa Health Sciences Centre Inc., National Defense Medical Centre and Perley Hospital.

Megawatts	68
Electricity sales	OEFC under contract until 2012
Steam sales	Ottawa Health Sciences Centre until 2013
	Perley Hospital until 2013
	Department of National Defense until 2003
Gas supply	CanWest Gas Supply until 2007

Mississauga

The Mississauga plant is a combined-cycle cogeneration facility designed to produce 110 MW of electrical energy. The 110 MW are contracted under a firm supply contract to OEFC. The plant also supplies steam, compressed air, waste water treatment and deionized water to Boeing Canada Inc., formerly McDonnell Douglas. The plant is located adjacent to the Boeing manufacturing facility near the Lester B. Pearson International Airport in Mississauga.

Megawatts	110
Electricity sales	OEFC under contract until 2017
Steam sales	Boeing Canada until 2013
Gas supply	Husky Energy until 2012

Windsor

The Windsor plant is a combined-cycle cogeneration facility designed to produce 70 MW of electrical energy. Currently, 50 MW are sold under a firm supply contract with OEFC. Sales to OEFC are presently the only market for the excess capacity; however, deregulation of the Ontario market is progressing and should provide the opportunity to sell additional capacity into a competitive marketplace. The Windsor plant also provides steam to Chrysler Canada Ltd.'s assembly facility in Windsor.

Megawatts	70
Electricity sales	OEFC under contract until 2016
Steam sales	Chrysler Canada until 2016
Gas supply	Pioneer Natural until 2014 and Husky Energy until 2011

Management's discussion & analysis

More.

TransAlta Power, L.P.'s (TransAlta Power) earnings result from its 49.99 per cent ownership in TransAlta Cogeneration, L.P. (TA Cogen). The remaining 50.01 per cent of TA Cogen is owned by TransAlta Energy Corporation (TEC), a wholly owned subsidiary of TransAlta Corporation (TAC). Three natural gas-fired cogeneration assets located in Ontario are owned by TA Cogen and operated by TEC. On Sept. 30, 2001, TA Cogen acquired a 60 per cent interest in a fourth natural gas-fired cogeneration plant, a 120 MW facility in Fort Saskatchewan, Alberta, from a wholly owned subsidiary of TEC for cash consideration of $70.0 million. Commissioned in 1999, the plant is owned and operated through a joint venture agreement with Air Liquide Canada Inc. and managed by TEC. Plant operations are governed by a utility services agreement with the customer, Dow Chemical Canada Inc. (Dow Chemical), that expires on Nov. 30, 2019. This agreement provides for the sale of the entire steam and electricity capacity, as well as a flow-through of operations and maintenance costs to Dow Chemical and certain performance-based incentives. Dow Chemical is responsible for procurement, transportation and cost of the fuel supply, based on contractual arrangements.

The acquisition was funded through the issuance of partnership units to TransAlta Power and TEC in proportion to their respective ownership interest in TA Cogen. TransAlta Power issued 4.5 million partnership units at a price of $8.50 per unit, realizing net proceeds of $36.1 million to fund the acquisition of the additional partnership units of TA Cogen.

TA Cogen distributes cash flow from operations to TransAlta Power and TEC in amounts proportionate to their ownership interest in TA Cogen. TransAlta Power, in turn, pays cash distributions to its unitholders. TA Cogen's operating results are discussed to provide context for TransAlta Power's results. All tabular amounts in the following discussion are in millions of Canadian dollars, except per unit, per megawatt hour (MWh) and gigawatt hour (GWh) amounts.

1: RESULTS OF OPERATIONS

A: TransAlta Power

I: Summary of Results

	2001	2000
Net income	**$ 14.3**	$ 9.5
Net income per unit	**$ 0.47**	$ 0.32
Cash distributions declared	**$ 22.8**	$ 20.7
Cash distributions declared per unit	**$ 0.7345**	$ 0.70
Units outstanding at Dec. 31, 2001	**33,988**	29,491

Net income was $14.3 million for the year ended Dec. 31, 2001, an increase of $4.8 million over net income of $9.5 million for 2000 as a result of higher equity earnings from TA Cogen. The 2001 results for TA Cogen reflect the addition of a fourth natural gas-fired cogeneration plant (Fort Saskatchewan) and higher power revenue and lower depreciation from the Ontario plants, partially offset by increased gas costs.

Cash distributions declared were $22.8 million ($0.7345 per unit) in 2001 compared to $20.7 million in 2000 ($0.70 per unit). This reflects higher cash distributions from TA Cogen due to stronger earnings and cash flow. During the third quarter of 2001, TransAlta Power converted to consistent monthly cash distributions. Previously, cash distributions for the quarters ending December and March were higher than June and September due to seasonal variations in operating income and cash flow from the power plants.

Since 1998, cash distributions have been fully tax-deferred and are expected to continue to be so through 2004. The effect of the tax deferral is that unitholders are not required to pay income tax on the distributions in the year of receipt.

II: Equity Income from TA Cogen

		2001		2000
Equity income	$	**14.6**	$	9.8

The amount represents TransAlta Power's 49.99 per cent interest in TA Cogen, the operating limited partnership.

III: Management and Administration Expenses

		2001		2000
Management and administration expenses	$	**0.3**	$	0.3

Management and administrative expenses of $0.3 million for the year ended Dec. 31, 2001 were comparable to those incurred in 2000. TEC provides management and administrative services to TransAlta Power under the terms of a management agreement. Effective Jan.1, 2000, the management agreement with TEC was amended such that TEC will not be paid a management fee until TransAlta Power's annual distribution is at least $0.75 per unit. Management fees so deferred will become payable in future years, but only when cash distributions per unit, after providing for the management fee, are $0.75 or greater. No management fees to TEC were paid in either 2000 or 2001. Unpaid deferred management fees owing to TEC at Dec. 31, 2001 were $0.6 million from TransAlta Power and $2.7 million from TA Cogen.

On the basis of current assets in service and operations, cash distributions in 2002 are expected to be similar to those for 2001, therefore no management fees are expected to be paid by TransAlta Power to TEC in 2002. Distributions are expected to be tax-deferred until 2004.

B: TA Cogen

I: Summary of Results

		2001		2000
Revenue	$	**144.9**	$	137.5
Net income	$	**29.2**	$	19.6
Cash distributions declared	$	**45.1**	$	42.2

Net income for the year ended Dec. 31, 2001 increased by $9.6 million to $29.2 million from $19.6 million in 2000. The 2001 results reflect higher revenues and lower depreciation from the Ontario plants, as well as revenue from the acquisition of the Fort Saskatchewan plant, offset by increased gas costs for the Ontario plants.

Cash distributions declared increased by $2.9 million to $45.1 million from $42.2 million for the year ended Dec. 31, 2001, reflecting increased net income due to increased revenues and lower depreciation, offset by the repayment of long-term debt and increased reserves for planned maintenance.

II: Revenues

		2001		2000
Electrical	$	**93.3**	$	82.3
Capacity		**42.9**		38.9
Thermal and other		**8.7**		16.3
Total	$	**144.9**	$	137.5
Total production (GWh)		**1,878**		1,640
Electrical production (GWh) [1]		**1,716**		1,640
Electrical revenue/MWh [1]	$	**54.37**	$	50.19

1 Ontario plants only.

Total revenue for the year ended Dec. 31, 2001 increased by 5.4 per cent or $7.4 million to $144.9 million from $137.5 million in 2000.

Electrical revenue for the year was $93.3 million, $11.0 million higher than the $82.3 million in 2000, reflecting increased prices and production from the Ontario plants and compensation payments from TEC in respect of gas sales. The Fort Saskatchewan plant earns no electrical revenue, since Dow Chemical purchases the entire capacity of the plant by way of a capacity payment. All of TA Cogen's electricity sales are earned under long-term power purchase arrangements (PPAs) with Ontario Electricity Financial Corporation. The PPAs have remaining terms ranging from 10 to 16 years. Revenues are seasonal due to higher electricity rates and production volumes in the winter months.

Capacity revenue for the year ended Dec. 31, 2001 was $42.9 million, compared to $38.9 million in 2000, mainly due to the addition of the Fort Saskatchewan plant.

Thermal and other revenue, which arises from the sale of steam and ancillary products and services to the industrial and other facilities located close to the plants, decreased $7.6 million for the year to $8.7 million from $16.3 million. The results for 2000 included gas sales during periods of curtailment, with no comparable sales recorded in 2001. In 2001, TA Cogen received compensation payments for gas sales, which are recorded as electrical revenue, due to the terms of a fixed-for-floating gas swap transaction that assigned TEC the right to curtail the plant and sell gas on the spot market.

III: Cost of Gas

		2001		2000
Cost of gas	$	**71.5**	$	68.1
Cost of gas used for generation	$	**68.7**	$	61.9
Cost of gas used for generation/MWh	$	**40.03**	$	37.74

Due to volatility in the natural gas markets, in 2000 TA Cogen entered into a fixed-for-floating gas swap agreement with TEC to fix the price of gas supplied to the Ottawa and Mississauga plants for a five year and one month period starting Dec. 1, 2000. As consideration, TA Cogen transferred the right to incremental revenues associated with curtailed electrical production and subsequent higher revenue gas sales to TEC for the term of the swap. In the event of a plant curtailment to sell natural gas, TA Cogen will earn operating income equivalent to that which would have been earned had the plant generated electricity. The purpose of this agreement was to stabilize cash distributions during the term of the agreement.

The total cost of gas includes costs incurred for both gas used for generation and gas sold to the spot market on behalf of TEC. It is comprised of both gas commodity and transportation costs for the Ontario plants. The cost of gas used for generation for the year ended Dec. 31, 2001 increased $6.8 million to $68.7 million ($40.03 per MWh) from $61.9 million ($37.74 per MWh). This increase reflects higher gas commodity and transportation costs. Natural gas used by the Fort Saskatchewan plant is the financial responsibility of Dow Chemical, based on contractual arrangements.

Gas commodity costs increased by approximately five per cent over 2000, primarily due to the escalation of the floor price under the Ottawa contract and the ceiling price of the Windsor contract. Long-term contracts in place for gas supply collar, or limit, gas prices within an escalating range. If the contract price is above the ceiling or below the floor, the difference between the contract price and the floor or ceiling price is accumulated in a "gas bank" account. The actual price paid by TA Cogen is the contract price increased or reduced by the balance in the gas bank account to the maximum or minimum of the ceiling or floor price, respectively. No interest is applied to the gas bank account balances and any remaining balance at the end of the contract is neither paid nor collected. The considerable decrease in natural gas market prices during 2001 did not have a significant effect on the financial results for 2001 due to the balances in the gas bank accounts. Lower prices generally increase the balance in the gas banks for the Ottawa and Mississauga plants.

Gas transportation costs are dictated by long-term contracts with pipeline utilities, which are subject to rates set through a regulatory process. In 2001, anticipated regulatory decisions increased gas transportation costs by approximately 10 per cent.

IV: Depreciation

	2001	2000
Depreciation	**$ 25.6**	$ 31.4

Depreciation for the year ended Dec. 31, 2001 was $25.6 million, a decrease of $5.8 million from $31.4 million recorded in 2000. This is mainly the result of an increase in the estimated remaining service lives of the Ontario plants from 17 years to 27 years, partially offset by depreciation on the Fort Saskatchewan plant in the fourth quarter of 2001.

V: Operations & Maintenance (O&M)

	2001	2000
O&M	**$ 13.5**	$ 12.8

O&M expenditures differ from longer-term major maintenance costs. O&M costs include short-term maintenance, external services, salaries, wages and benefits, materials and supplies, insurance premiums, property taxes and utility costs. These costs are relatively independent of production volumes and seasonality. O&M expense for the year ended Dec. 31, 2001 increased by $0.7 million to $13.5 million from $12.8 million in 2000, primarily as a result of increased salaries and wages in Ontario and the addition of the Fort Saskatchewan plant.

VI: Net Interest Expense

	2001	2000
Net interest expense	**$ 5.0**	$ 5.6

Net interest expense was $5.0 million for the year ended Dec. 31, 2001, compared to $5.6 million in 2000, reflecting slightly lower average debt levels and lower interest rates.

OUTLOOK

Total revenue for 2002 is expected to increase as a result of the full year contribution from the Fort Saskatchewan plant. Increases in the Ottawa, Mississauga and Windsor plants' power revenues from rate escalations in the PPAs are expected to be offset by reduced thermal and other revenue due to lower demand from the industrial hosts.

Total gas costs are expected to increase in 2002. Gas commodity costs are expected to increase slightly in 2002, mainly as a result of escalation of the ceiling price of the Windsor gas supply contract. The gas commodity costs for the Ottawa and Mississauga plants will remain comparable with 2001 as a result of the swap agreement with TEC. Gas transportation costs are expected to increase again in 2002 as a result of regulatory filings by the pipeline utilities. In late 2002, the majority of the transportation arrangements with TransCanada PipeLines Limited expire. As a result, to mitigate the risk of increasing gas transportation costs, TA Cogen has entered into swap arrangements with a wholly owned subsidiary of TEC to fix transportation costs for the Ottawa and Mississauga plants for the period of November 2002 to November 2007. The Fort Saskatchewan plant has no exposure to movements in gas prices as the customer supplies all gas necessary for use in the plant.

Total O&M expense for 2002 is expected to increase as a result of the full year contribution from the Fort Saskatchewan plant.

Net interest expense for 2002 is expected to remain consistent with 2001 as interest rates are not expected to change significantly throughout the year. Debt outstanding will remain relatively stable for 2002.

2: LIQUIDITY AND CAPITAL RESOURCES

TAC provides TransAlta Power with a $2.9 million credit facility to finance purchases of partnership units under the Normal Course Issuer Bid (NCIB).

TEC provides TA Cogen with a $20.0 million credit facility to finance fluctuations in working capital, plant maintenance and capital expenditures in excess of the reserves held by TA Cogen. At Dec. 31, 2001, the balance owed under this facility was $17.5 million (2000 - $9.3 million). To the extent that funding is required for significant maintenance or expansion projects or asset acquisitions, the expenditures will be funded under the credit facility provided by TEC or through the issuance of additional units to the public.

On Sept. 30, 2001, TA Cogen acquired a 60 per cent interest in a fourth natural gas-fired cogeneration plant, a 120 MW facility in Fort Saskatchewan, Alberta, from a wholly owned subsidiary of TEC for total consideration of $70.0 million. The acquisition was funded through the issuance of partnership units to TEC and cash consideration of $35.0 million, which was funded by the issuance of partnership units to TransAlta Power. TransAlta Power issued 4.5 million partnership units at a price of $8.50 per unit, realizing net proceeds of $36.1 million to fund the acquisition of additional partnership units of TA Cogen.

Under the terms of the NCIB that expired on April 4, 2001, TransAlta Power purchased and cancelled 112,300 partnership units. The NCIB allowed for the purchase for cancellation of up to 2.96 million partnership units. Financing for these purchases was obtained through a loan based on commercial terms from TEC.

On April 10, 2001, TransAlta Power announced its intention to continue purchasing partnership units. Under the terms of the new NCIB, TransAlta Power is allowed to purchase up to 2.95 million partnership units representing 10 per cent of TransAlta Power's public float issued and outstanding at March 31, 2001. The NCIB will expire on the earlier of April 11, 2002 or the date on which TransAlta Power completes the purchase of the 2.95 million partnership units. Financing for the purchases under the NCIB will continue to be obtained through a loan based on commercial terms from TEC. As at Dec. 31, 2001, TransAlta Power had not purchased any further partnership units.

STATEMENTS OF CASH FLOWS

	2001	2000
Cash at beginning of period	$ **0.4**	$ 0.7
Operating activities	**(0.1)**	(0.5)
Investing activities	**(8.7)**	21.8
Financing activities	**9.5**	(21.6)
Cash at end of period	$ **1.1**	$ 0.4

Cash used in operating activities for 2001 was $0.1 million, compared to cash used in operations of $0.5 million in 2000, reflecting an improved working capital position in 2001 resulting from the timing of distributions.

Cash used by investing activities for 2001 was $8.7 million, $30.5 million higher than the $21.8 million provided in 2000. The increase in the use of cash reflects the additional $35.0 million investment in TA Cogen, partially offset by increased distributions from TA Cogen.

Cash provided by financing activities for 2001 was $9.5 million, $31.1 million higher than the $21.6 million used in financing activities in 2000. These increases are due to proceeds of $36.1 million on the issuance of 4.5 million partnership units, partially offset by increased distributions to unitholders during 2001 as a result of the move to monthly distributions.

3: BUSINESS RISKS

OPERATIONAL RISK The operational performance of the power plants is the primary driver of the financial results. The power plants have been designed to operate continuously except during planned and unplanned down time. TA Cogen's maintenance program is designed to minimize down time and maximize operating results. This program includes participation in a lease pool for the gas turbines that minimizes the possibility of an extended down time by having replacement engines available on relatively short notice.

RESTRUCTURING OF THE ONTARIO ELECTRICITY MARKET The Ontario electricity market is in the process of deregulating with the competitive market opening anticipated in May 2002. TA Cogen's PPAs will require minor modifications to reflect the new electricity market in Ontario and will continue to be backed by the government of Ontario. Ontario's Minister of Energy, Science and Technology has committed that the sanctity of these contracts will be maintained through this process.

GAS PRICE RISK TA Cogen has exposure to gas price risk, including gas commodity prices and transportation costs. TA Cogen has mitigated exposure to gas commodity prices through long-term gas supply contracts and a five year and one month period fixed-for-floating swap with TEC, which fixes the price to be paid for gas for the Mississauga and Ottawa plants. Transportation costs are dictated by long-term contracts subject to rates set through a regulatory process. In late 2002, the majority of the transportation arrangements with TransCanada PipeLines Limited will expire. As a result, TA Cogen has entered into swap arrangements to fix transportation costs for the Ottawa and Mississauga plants for the November 2002 to November 2007 period. TA Cogen continues to actively explore options to minimize the long-term cost of gas.

CREDIT RISK TA Cogen actively manages its exposure to credit risk by the assessment of the ability of counterparties to fulfill their obligations under the related contracts prior to entering into such contracts.

INTEREST RATE EXPOSURE TA Cogen has exposure to movements in interest rates and manages this exposure by minimizing the amount of debt subject to floating interest rates.

ENVIRONMENTAL, HEALTH AND SAFETY RISK TA Cogen's approach is to continually improve the management of operational risks in the areas of environment, health and safety while developing mechanisms to manage future risks. These programs are integrated into the operations and management systems of the company. They are designed to mitigate the potential competitive risks to its fossil-fuelled generation plants from future changes in public policy. This could include changes to environmental controls, regulatory regimes, taxes or charges, to meet due diligence requirements and to enhance environmental performance through implementing systems and standards such as ISO 14001. Contractual provisions in the PPAs substantially cover TA Cogen for risks related to potential changes in law.

All TA Cogen facilities undergo compliance and management system integrity audits on a cycle determined by facility performance, on average, once every three years.

WEATHER-RELATED BUSINESS RISK In early 1998, severe ice storms cut off electricity for weeks to millions of residents in Quebec and Ontario. The nature of the ice storm was particularly severe and widespread. This type of storm, although extremely unusual, is an ongoing risk for electric companies. This risk is mitigated through *force majeure* clauses in the PPAs.

GENERAL ECONOMIC CONDITIONS Changes in general economic conditions impact prices received for non-contracted revenue, operating costs, timing and extent of capital expenditures, the net recoverable value of property, plant and equipment, results of financing efforts, credit risk and counterparty risk.

OTHER CONTINGENCIES TA Cogen maintains a level of insurance coverage deemed appropriate by management and for matters for which insurance coverage can be maintained. There have been no significant changes to TA Cogen's insurance coverage during 2001, except for the discontinuance of coverage for terrorist acts.

SELECTED QUARTERLY FINANCIAL INFORMATION FOR TRANSALTA POWER

(unaudited; in millions except per unit amounts)

2001 Quarters	First	Second	Third	Fourth	Total
Revenue	**$ 5.0**	**$ 2.1**	**$ 1.9**	**$ 5.6**	**$ 14.6**
Net income	**4.8**	**2.1**	**1.8**	**5.6**	**14.3**
Distributable cash	**6.6**	**4.1**	**6.7**	**5.9**	**23.3**
Net income per unit	**0.16**	**0.07**	**0.06**	**0.18**	**0.47**
Cash distribution declared per unit	**0.23**	**0.14**	**0.18**	**0.1845**	**0.7345**

2000 Quarters	First	Second	Third	Fourth	Total
Revenue	$ 3.7	$ 0.9	$ 0.7	$ 4.5	$ 9.8
Net income	3.6	0.9	0.6	4.4	9.5
Distributable cash	6.8	4.4	3.7	5.9	20.8
Net income per unit	0.12	0.03	0.02	0.15	0.32
Cash distribution declared per unit	0.23	0.14	0.13	0.20	0.70

Financial review

MANAGEMENT'S RESPONSIBILITY

In management's opinion, the accompanying financial statements have been properly prepared within reasonable limits of materiality and within the framework of appropriately selected generally accepted accounting principles and policies consistently applied and summarized in the financial statements. Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to March 12, 2002. Management is responsible for all information in the annual report. Financial operating data in the report are consistent, where applicable, with the financial statements.

Certain management, administrative and other services, including the preparation of financial statements, are provided by TransAlta Energy Corporation (TEC) through a Management Services Agreement. To meet its responsibility for reliable and accurate financial statements, management relies on TEC's systems of internal control, which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization. These systems are monitored by management and by TEC's internal auditors. In addition, the internal auditors perform appropriate tests and related audit procedures.

The financial statements have been examined by Ernst & Young LLP, independent chartered accountants. The external auditors' responsibility is to express a professional opinion on the fairness of management's financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion.

The Audit Committee of the Board of Directors is comprised of independent directors. The Audit Committee meets regularly with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities, and to review the financial statements. The Audit Committee reports its findings to the Board of Directors for consideration when approving the financial statements for issuance to the unitholders. The Audit Committee also recommends, for review by the Board of Directors and approval of unitholders, the appointment of the external auditors. The internal and external auditors have full and free access to the Audit Committee.

Ian A. Bourne
PRESIDENT & DIRECTOR
March 12, 2002

Marvin J. Waiand
VICE-PRESIDENT, FINANCE

AUDITORS' REPORT

To the Unitholders of TransAlta Power, L.P.

We have audited the balance sheets of TransAlta Power, L.P. (TransAlta Power) as at Dec. 31, 2001 and 2000 and the statements of earnings, distributable cash, partners' equity and cash flows for the years then ended. These financial statements are the responsibility of TransAlta Power's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of TransAlta Power as at Dec. 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ernst & Young LLP
CHARTERED ACCOUNTANTS
CALGARY, CANADA
March 12, 2002

Financial statements for TransAlta Power, L.P.

BALANCE SHEETS

As at Dec. 31 (in thousands)	**2001**	2000
Assets		
Current assets		
Cash	**$ 1,123**	$ 443
Distribution receivable from TransAlta Cogeneration, L.P.	**2,117**	5,905
Prepaid expenses	**–**	5
	3,240	6,353
Investment in TransAlta Cogeneration, L.P. *(Note 3)*	**271,795**	244,716
	$ 275,035	$ 251,069
Liabilities and partners' equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 18**	$ 49
Due to TransAlta Energy Corporation *(Notes 4 & 5)*	**991**	826
Distributions payable	**2,091**	5,899
	3,100	6,774
Partners' equity *(Note 4)*	**271,935**	244,295
	$ 275,035	$ 251,069

Contingency *(Note 5)*

STATEMENTS OF PARTNERS' EQUITY

(in thousands except number of units outstanding)	Number of units outstanding	General partner	Limited partners	Total
Balance, Dec. 31, 1999	29,600,000	$ (2)	$ 256,204	$ 256,202
Redemption of limited partnership units *(Note 4)*	(109,100)		(1,091)	(1,091)
Contributed surplus *(Note 4)*			371	371
Net income		1	9,512	9,513
Distributions declared		(2)	(20,698)	(20,700)
Balance, Dec. 31, 2000	29,490,900	$ (3)	$ 244,298	$ 244,295
Subscriptions *(Note 4)*	4,500,000		38,250	38,250
Issue costs *(Note 4)*			(2,175)	(2,175)
Redemption of limited partnership units *(Note 4)*	(3,200)		(32)	(32)
Contributed surplus *(Note 4)*			11	11
Net income		1	14,346	14,347
Distributions declared		(2)	(22,759)	(22,761)
Balance, Dec. 31, 2001	**33,987,700**	**$ (4)**	**$ 271,939**	**$ 271,935**

See accompanying notes.

On behalf of the board:

T. Iain Ronald, DIRECTOR

Ian A. Bourne, DIRECTOR

STATEMENTS OF EARNINGS

Years ended Dec. 31 (in thousands except per unit amounts)	**2001**	2000
Revenues		
Equity income from TransAlta Cogeneration, L.P.	**$ 14,619**	$ 9,788
Expenses		
Management and administration expenses *(Note 5)*	**272**	275
Net income	**$ 14,347**	$ 9,513
Net income per unit	**$ 0.47**	$ 0.32
Weighted average units outstanding in the year	**30,634**	29,596

STATEMENTS OF DISTRIBUTABLE CASH

Years ended Dec. 31 (in thousands except per unit amounts)	**2001**	2000
Net income	**$ 14,347**	$ 9,513
Deduct: Equity income from TransAlta Cogeneration, L.P.	**(14,619)**	(9,788)
Deduct: Purchase of TransAlta Cogeneration, L.P. units	**(35,000)**	–
Add: Distributions from TransAlta Cogeneration, L.P.	**22,540**	21,101
Add: Net proceeds from issuance of partnership units	**36,075**	–
Cash available for distribution	**$ 23,343**	$ 20,826
Cash available for distribution per unit	**$ 0.76**	$ 0.70

STATEMENTS OF CASH FLOWS

Years ended Dec. 31 (in thousands)	**2001**	2000
Operating activities		
Net income	**$ 14,347**	$ 9,513
Equity income from TransAlta Cogeneration, L.P.	**(14,619)**	(9,788)
Change in non-cash operating working capital balances	**118**	(226)
	(154)	(501)
Investing activities		
Investment in TransAlta Cogeneration, L.P.	**(35,000)**	–
Distributions received from TransAlta Cogeneration, L.P.	**26,328**	21,859
	(8,672)	21,859
Financing activities		
Net proceeds from issuance of partnership units	**36,075**	–
Advance from TransAlta Energy Corporation	**21**	720
Redemption of limited partnership units	**(21)**	(720)
Distributions to unitholders	**(26,569)**	(21,610)
	9,506	(21,610)
Increase (decrease) in cash	**680**	(252)
Cash at beginning of year	**443**	695
Cash at end of year	**$ 1,123**	$ 443

See accompanying notes.

Notes to the financial statements

(dollar amounts in thousands except per unit amounts)

1: DESCRIPTION OF BUSINESS

TransAlta Power, L.P. (TransAlta Power) is a limited partnership formed on Dec. 16, 1997 under the laws of the Province of Ontario pursuant to the TransAlta Power Partnership Agreement. On April 2, 1998, TransAlta Power acquired a 49.99 per cent interest in TransAlta Cogeneration, L.P. (TA Cogen). TransAlta Energy Corporation (TEC) is retained by TransAlta Power to provide certain management, administrative and other services. TEC, a wholly owned subsidiary of TransAlta Corporation (TAC), owns 50.01 per cent of TA Cogen.

2: SIGNIFICANT ACCOUNTING POLICIES

A: Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

B: Investment in TA Cogen

The investment in TA Cogen is accounted for using the equity method, whereby TransAlta Power's share of TA Cogen's earnings is included in TransAlta Power's earnings and increases its investment. Distributions by TA Cogen decrease TransAlta Power's investment in TA Cogen.

C: Revenue recognition

Revenue is recognized on the accrual basis.

D: Income taxes

Income taxes are the responsibility of the individual partners and accordingly are not reflected in these financial statements.

E: Distributable cash

Distributable cash means the amount by which TransAlta Power's cash on hand or to be received in respect of that period exceeds; (i) any unpaid administration expenses of TransAlta Power; and (ii) amounts required for the business and operations of TransAlta Power.

F: Financial instruments

The carrying amounts of TransAlta Power's financial assets and financial liabilities approximate their fair values.

3: INVESTMENT IN TA COGEN

TAC has the obligation to purchase all of TransAlta Power's interest in TA Cogen on Dec. 31, 2018 at the then fair market value.

4: PARTNERS' EQUITY

TransAlta Power is authorized to issue an unlimited number of partnership units. During 2000, TransAlta Power implemented a Normal Course Issuer Bid (NCIB) to repurchase a maximum of 2,960,000 units in the period April 6, 2000 to April 4, 2001 for maximum consideration of $18,000. TEC has provided funding on a short-term basis at a rate of Bankers Acceptance plus 1.25 per cent. At Dec. 31, 2001, 112,300 units (2000 - 109,100 units) had been repurchased for consideration of $741 (2000 - $720). The difference between the amount paid to repurchase these units and their average carrying value has been recorded as contributed surplus in the accompanying statements of partners' equity.

On April 10, 2001, TransAlta Power implemented a new NCIB under which a maximum of 2,946,395 partnership units may be repurchased up to April 11, 2002. As at Dec. 31, 2001, no further units have been repurchased.

During the year, TransAlta Power issued 4,500,000 limited partnership units at $8.50 per unit, resulting in net proceeds, after deducting issuance fees and expenses, of $36,075. TransAlta Power used $35,000 of the net proceeds to subscribe for limited partnership units of TA Cogen.

5: MANAGEMENT FEES

TEC provides management services to TransAlta Power under the terms and conditions set out in a management agreement. Management fees include a fixed component as well as a variable component calculated with reference to TransAlta Power's cash flows and distributable cash per unit. These transactions have been recorded at their exchange amounts, are unsecured, non-interest bearing and have no fixed repayment terms. Commencing Jan. 1, 2000, management fees are payable in a particular year only to the extent that, after payment of the fee, the annual distribution to unitholders is at least $0.75 per unit. Any unpaid fees are accounted for as a contingent liability and, accordingly, are recorded as a payable to TEC only when amounts available for annual distributions to unitholders in future years are sufficiently larger than $0.75 per unit to allow payment of fees deferred from prior years. Total unpaid fees at Dec. 31, 2001 were $639 (2000 - $281).

6: INCOME TAXES

The net difference between the reported amount and the tax base of TransAlta Power's investment in TA Cogen as at Dec. 31, 2001 was $24,032 (2000 - $13,449). The net difference between the reported amount and the tax base of TransAlta Power's issuance costs as at Dec. 31, 2001 was $13,411 (2000 - $10,200).

Financial review

MANAGEMENT'S RESPONSIBILITY

In management's opinion, the accompanying financial statements have been properly prepared within reasonable limits of materiality and within the framework of appropriately selected generally accepted accounting principles and policies consistently applied and summarized in the financial statements. Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to March 12, 2002. Management is responsible for all information in the annual report. Financial operating data in the report are consistent, where applicable, with the financial statements.

Certain management, administrative and other services, including the preparation of the financial statements, are provided by TransAlta Energy Corporation (TEC) through a Management Services Agreement. To meet its responsibility for reliable and accurate financial statements, management relies on TEC's systems of internal control, which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization. These systems are monitored by management and by TEC's internal auditors. In addition, the internal auditors perform appropriate tests and related audit procedures.

The financial statements have been examined by Ernst & Young LLP, independent chartered accountants. The external auditors' responsibility is to express a professional opinion on the fairness of management's financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion.

The Audit Committee of the Board of Directors is comprised of independent directors. The Audit Committee meets regularly with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities, and to review the financial statements. The Audit Committee reports its findings to the Board of Directors for consideration when approving the financial statements for issuance to the unitholders. The Audit Committee also recommends, for review by the Board of Directors and approval of unitholders, the appointment of the external auditors. The internal and external auditors have full and free access to the Audit Committee.

James W. Kemp
PRESIDENT & DIRECTOR
March 12, 2002

Garth A. Wong
VICE-PRESIDENT, FINANCE

More
is more.

AUDITORS' REPORT

To the Unitholders of TransAlta Cogeneration, L.P.

We have audited the balance sheets of TransAlta Cogeneration, L.P. (TA Cogen) as at Dec. 31, 2001 and 2000 and the statements of earnings, distributable cash, partners' equity and cash flows for the years then ended. These financial statements are the responsibility of TA Cogen's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of TA Cogen as at Dec. 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ernst & Young LLP
CHARTERED ACCOUNTANTS
CALGARY, CANADA
March 12, 2002

Financial statements for TransAlta Cogeneration, L.P.

BALANCE SHEETS

As at Dec. 31 (in thousands)	**2001**	2000
Assets		
Current assets		
Cash	$ **1,969**	$ –
Accounts receivable *(Note 11c)*	**28,506**	25,559
Prepaid expenses	**1,039**	1,416
Materials and supplies	**325**	–
	31,839	26,975
Power plants *(Notes 3 & 4)*	**609,399**	564,127
	$ **641,238**	$ 591,102
Liabilities and partners' equity		
Current liabilities		
Bank overdraft	$ –	$ 308
Accounts payable and accrued liabilities	**9,757**	8,199
Distributions payable	**4,235**	11,812
Due to TransAlta Energy Corporation *(Notes 6 & 9)*	**18,394**	13,148
Current portion of long-term debt *(Note 5)*	**3,157**	2,935
	35,543	36,402
Long-term debt *(Note 5)*	**62,067**	65,224
Partners' equity *(Note 7)*	**543,628**	489,476
	$ **641,238**	$ 591,102

Commitment and contingency *(Notes 8 & 9)*

STATEMENTS OF PARTNERS' EQUITY

(in thousands except number of units outstanding)	Number of units outstanding	General partner	Limited partners	Total
Balance, Dec. 31, 1999	55,805,581	$ (4)	$ 512,111	$ 512,107
Net income		2	19,577	19,579
Distributions declared		(4)	(42,206)	(42,210)
Balance, Dec. 31, 2000	55,805,581	$ (6)	$ 489,482	$ 489,476
Subscriptions *(Note 3)*	8,104,760	–	70,000	70,000
Net income		3	29,239	29,242
Distributions declared		(5)	(45,085)	(45,090)
Balance, Dec. 31, 2001	**63,910,341**	**$ (8)**	**$ 543,636**	**$ 543,628**

See accompanying notes.

On behalf of the board:

T. Iain Ronald, DIRECTOR

James W. Kemp, DIRECTOR

STATEMENTS OF EARNINGS

Years ended Dec. 31 (in thousands)	**2001**	2000
Revenues		
Electrical *(Note 8)*	**$ 93,305**	$ 82,306
Capacity	**42,875**	38,895
Thermal and other	**8,716**	16,253
	144,896	137,454
Operating expenses		
Cost of gas	**71,533**	68,064
Depreciation	**25,625**	31,419
Operating and maintenance expenses *(Note 9)*	**13,543**	12,800
	110,701	112,283
Operating income	**34,195**	25,171
Net interest expense *(Notes 5, 6, 8 & 11)*	**(4,953)**	(5,592)
Net income	**$ 29,242**	$ 19,579

STATEMENTS OF DISTRIBUTABLE CASH

Years ended Dec. 31 (in thousands)	**2001**	2000
Net income	**$ 29,242**	$ 19,579
Add: Depreciation	**25,625**	31,419
Add: Asset sale proceeds	**–**	575
Deduct: Repayment of long-term debt principal	**(2,936)**	(1,841)
Deduct: Maintenance reserve	**(5,316)**	(4,409)
Cash available for distribution	**$ 46,615**	$ 45,323

STATEMENTS OF CASH FLOWS

Years ended Dec. 31 (in thousands)	**2001**	2000
Operating activities		
Net income	**$ 29,242**	$ 19,579
Depreciation	**25,625**	31,419
	54,867	50,998
Change in non-cash operating working capital balances	**3,909**	(624)
	58,776	50,374
Investing activities		
Restricted investments	**–**	80,300
Additions to power plants	**(35,897)**	(12,603)
	(35,897)	67,697
Financing activities		
Proceeds from issuance of partnership units	**35,000**	–
Repayment of promissory note due to Transalta Energy Corporation	**–**	(80,300)
Distributions to unitholders	**(52,667)**	(43,726)
Repayment of long-term debt principal	**(2,935)**	(1,841)
Restricted deposit	**–**	3,446
	(20,602)	(122,421)
Increase (decrease) in cash	**2,277**	(4,350)
Cash (bank overdraft) at beginning of year	**(308)**	4,042
Cash (bank overdraft) at end of year	**$ 1,969**	$ (308)

See accompanying notes.

Notes to the financial statements

(dollar amounts in thousands except per unit amounts)

1: DESCRIPTION OF BUSINESS

TransAlta Cogeneration, L.P. (TA Cogen) is a limited partnership formed on Dec. 16, 1997 under the laws of the Province of Ontario pursuant to the TA Cogen Partnership Agreement. On April 1, 1998, TA Cogen acquired the Mississauga, Ottawa and Windsor power plant assets of TransAlta Energy Corporation (TEC). On Sept. 30, 2001, TA Cogen acquired the Fort Saskatchewan power plant assets from a wholly owned subsidiary of TEC. TEC owns 50.01 per cent of TA Cogen and TransAlta Power, L.P. (TransAlta Power) owns the remaining 49.99 per cent. TEC is retained by TA Cogen to operate and maintain the power plants and to provide certain management, administrative and other services.

2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A: Basis of presentation

The financial statements include the accounts of TA Cogen and its proportionate share of its joint venture.

B: Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

C: Power plants

The power plants are carried at cost and are depreciated on a unit-of-production basis over the life of the plants. The cost of major overhauls is capitalized and depreciated over the estimated overhaul service lives of three to six years.

Effective Jan. 1, 2001, the estimated remaining useful life of the three Ontario power plants was increased to 27 years from 17 years. The effect of this change on the results for the year ended Dec. 31, 2001 is a reduction in depreciation of $9,900. The remaining useful life of the Fort Saskatchewan power plant is 18 years.

D: Revenue recognition

Electrical energy revenue is recognized upon transmission to the customer. Thermal revenue is recognized upon delivery to the customer. Capacity and curtailment revenues are recognized when contractually earned.

E: Income taxes

Income taxes are the responsibility of the individual partners and accordingly are not reflected in these financial statements.

F: Levelization payments

Pursuant to an agreement with TEC dated April 2, 1998, TA Cogen receives revenue levelization payments in respect of the Windsor plant from TEC, which took over Ontario Electricity Financial Corporation's rights and obligations on that date. These amounts are included in power revenues when received, and will be deducted from revenue when repaid. The levelization agreement was entered into on the construction of the plant and has a life equal to the power purchase arrangement.

G: Distributable cash

Distributable cash means the amount by which TA Cogen's cash on hand or to be received in respect of that period exceeds; (i) any unpaid administration expenses of TA Cogen; (ii) amounts required for the business and operations of TA Cogen and the power plants; and (iii) any cash reserve which the Board of Directors of the TA Cogen general partner in its discretion determines is necessary to satisfy TA Cogen's current and anticipated obligations and liabilities, including an annual reserve for the average estimated major maintenance expenditures.

H: Financial instruments

The estimated fair value of long-term debt is determined with reference to market prices for similar issues (see *Note 11A*). The carrying amounts of other balance sheet financial assets and financial liabilities approximate their fair values.

3: ACQUISITION AND INVESTMENT

Effective Sept. 30, 2001, TA Cogen acquired 3759628 Canada Inc.'s 60 per cent interest in the Fort Saskatchewan Cogeneration Project, a 120 MW facility. 3759628 Canada Inc. is a 100 per cent owned subsidiary of TEC. As consideration, 3759628 Canada Inc. received $35,000 of TA Cogen partnership units and a $35,000 promissory note. TA Cogen issued $35,000 of partnership units to TransAlta Power. The total purchase price of $70,000 has been allocated to capital assets.

TA Cogen's interest in the Fort Saskatchewan Cogeneration Project is accounted for as a joint venture and accordingly reflects only TA Cogen's proportionate interest in the related assets, liabilities, revenues and expenses.

4: POWER PLANTS

	2001	2000
Cost	**$ 719,864**	$ 648,967
Accumulated depreciation	**(110,465)**	(84,840)
Net book value	**$ 609,399**	$ 564,127

5: LONG-TERM DEBT

Long-term debt is comprised of notes payable, which bear interest at a fixed rate of 7.4 per cent. Interest expense incurred was $4,905 (2000 - $5,088). First fixed and floating charges and a mortgage on the Windsor power plant assets, as well a single letter of credit issued by TEC having a face amount of $3,953, have been provided as security.

Long-term principal amounts are due in the following years:

2002	$ 3,157
2003	3,395
2004	3,651
2005	3,926
2006	4,223
Thereafter	46,872
	$ 65,224

6: TEC FACILITY

TA Cogen maintains a $20,000 borrowing facility with TEC, on which interest is set at the Bankers Acceptance rate plus 1.25 per cent. There was $17,500 outstanding as at Dec. 31, 2001 (2000 - $9,300), with interest expense incurred of $106 (2000 - $775). The effective interest rate on this facility in 2001 was 4.5 per cent (2000 - 6.6 per cent).

7: PARTNERS' EQUITY

TA Cogen is authorized to issue an unlimited number of units. Each unit represents an equal undivided limited partnership interest, entitles the holder to participate equally in distributions, and is not subject to future calls or assessments.

8: LEVELIZATION PAYMENTS

Electrical revenues include $749 in levelization payments from TEC (2000 - $1,154) *(Note 2F)*. As at Dec. 31, 2001, the future repayment obligation amounts to $5,741 (2000 - $4,635), which includes interest in the amount of $878 (2000 - $521). Interest is calculated based on the Bank of Canada prime rate plus one per cent, as amended by the Board of Directors on March 30, 1999. The effective interest rate was 6.9 per cent (2000 - 8.3 per cent).

9: MANAGEMENT FEES

TEC operates the power plant assets and provides management services to TA Cogen under an operating and maintenance agreement. The amounts charged by TEC as reimbursement of operating and maintenance costs incurred on behalf of TA Cogen were $3,810 for the year ended Dec. 31, 2001 (2000 - $4,512). There were no fees charged by TEC for management and administrative services (2000 - $nil). These transactions have been recorded at their exchange amounts, are unsecured, non-interest bearing and have no fixed repayment terms. Commencing Jan. 1, 2000, management and administrative fees are payable in a particular year only to the extent that, after payment of the fee, the annual distribution to unitholders is at least $0.75 per unit. Any unpaid fees are accounted for as a contingent liability and, accordingly, are recorded as a payable to TEC only when amounts available for annual distributions to unitholders in future years are sufficiently larger than $0.75 per unit to allow payment of fees deferred from prior years. Total unpaid fees at the year ended Dec. 31, 2001 were $2,709 (2000 - $1,336).

10: INCOME TAXES

The net difference between the reported amounts and the tax base of TA Cogen's assets and liabilities as at Dec. 31, 2001 was $374,964 (2000 - $332,477).

11: FINANCIAL RISK MANAGEMENT

A: Interest rate risk management

TA Cogen has fixed the rates on long-term debt. The fair value of TA Cogen's long-term debt changes as interest rates change and the fair value as at Dec. 31, 2001 was $66,659 (2000 - $71,008). Total cash interest paid was $5,029 (2000 - $5,447).

B: Energy commodities price risk management

Sales prices for electrical and thermal revenues, gas purchase prices and gas transportation costs are generally fixed through long-term contracts. Selling prices for electrical and thermal revenues are fixed and include escalation clauses. The cost of gas transportation is subject to rate regulation.

In November 2000, TA Cogen entered into a fixed-for-floating gas swap transaction with TEC for a five year and one month period starting Dec. 1, 2000. The swap transaction provided TA Cogen with fixed-price gas for both the Mississauga and Ottawa plants over the five year period. The floating prices associated with the Mississauga and Ottawa Cogen plants' long-term fuel supply agreements were transferred to TEC's account. For the year ended Dec. 31, 2001, payments by TEC under the swap transaction totalled $11,520 (2000 - $532). The notional gas volume in the transaction was the total delivered fuel for both facilities. As consideration and in negotiation, TEC was granted the right to incremental revenues associated with curtailled electrical production and subsequent higher revenue gas sales.

TA Cogen has entered into swap arrangements with a wholly owned subsidiary of TEC to fix transportation costs for the Ottawa and Mississauga plants for the period November 2002 to November 2007.

C: Credit risk

Accounts receivable includes $25,363 due from Ontario Electricity Financial Corporation (2000 - $22,302) and $1,617 due from Dow Chemical Canada Inc. (2000 - $nil).

12: JOINT VENTURES

Summarized information on the results of operations, financial position and cash flows relating to TA Cogen's pro-rata interest in the Fort Saskatchewan Cogeneration Project was as follows:

		2001
Results of operations		
Revenues	$	2,749
Expenses		300
Proportionate share of net earnings	$	2,449
Financial position		
Current assets	$	1,967
Long-term assets		60,771
Current liabilities		(207)
Proportionate share of net assets	$	62,531
Cash flows		
Operating activities	$	714
Investing activities		(25)
Financing activities		(2,202)
Decrease in cash	$	(1,513)

Unitholder & corporate governance information

TRANSFER AGENT
CIBC Mellon Trust Company
P.O. Box 7010, Adelaide Street Station
Toronto, Ontario M5C 2W9

Phone
1.800.387.0825 toll-free or
1.416.643.5500 outside North America

TICKER SYMBOL
TPW.UN

EXCHANGE
Toronto Stock Exchange (TSE)

STABILITY RATING
Standard & Poor's has rated TransAlta Power, L.P.'s units S-1

IMPORTANT DISTRIBUTION DATES
Cash distributions are paid at the end of every month. When a distribution payment date falls on a weekend or holiday the payment is made the previous business day.

PAYMENT DATE	RECORD DATE	EX-DISTRIBUTION DATE
April 30, 2002	March 31, 2002	March 27, 2002
May 31, 2002	April 30, 2002	April 26, 2002
June 30, 2002	May 31, 2002	May 29, 2002
July 31, 2002	June 30, 2002	June 26, 2002
Aug. 31, 2002	July 31, 2002	July 29, 2002
Sept. 30, 2002	Aug. 31, 2002	Aug. 28, 2002
Oct. 31, 2002	Sept. 30, 2002	Sept. 26, 2002
Nov. 30, 2002	Oct. 31, 2002	Oct. 29, 2002
Dec. 31, 2002	Nov. 30, 2002	Nov. 27, 2002
Jan. 31, 2003	Dec. 31, 2002	Dec. 27, 2002
Feb. 28, 2003	Jan. 31, 2003	Jan. 29, 2003
March 31, 2003	Feb. 28, 2003	Feb. 26, 2003

STATEMENT OF CORPORATE GOVERNANCE PRACTICES TransAlta Power Ltd. is the general partner of TransAlta Power, L.P. (TransAlta Power) and a subsidiary of TransAlta Corporation (TAC). It directs the operations of TransAlta in accordance with the TransAlta Partnership Agreement. It supports the guidelines for effective corporate governance as recommended by the Toronto Stock Exchange. The Board of Directors of the general partner approves all material transactions and agreements entered into by TAC. In addition, material transactions between TransAlta Power and TAC or its associates are approved by a majority of independent directors. On behalf of TransAlta Power's unitholders, the Board of Directors is responsible for the partnership, including the review of operations against certain agreements, and approval of other matters such as financial statements, cash distributions to unitholders, certain statutory requirements, the annual budget and new acquisitions.

BOARD OF DIRECTORS The Board of Directors monitors TransAlta Power's operations through its regularly scheduled meetings, its Audit Committee and through reports, analysis and discussions with management. During 2001, the Directors met as a board on eight occasions. The Board consists of six members. Three of these Directors must be unrelated to and independent from TAC. The independent and unrelated Directors regularly hold in camera sessions without the related Directors or management present. Chair: T. Iain Ronald (independent); Members: Ian A. Bourne, Jan Carr (independent), Terence Dalgleish (independent but related), Randall J. Findlay (independent), and James W. Kemp.

AUDIT COMMITTEE The Audit Committee consists of three unrelated and independent Directors. It reviews all published financial statements and narratives and the roles and adequacy of internal controls and risk management practices. The Committee also reviews and recommends to the Board for approval the annual financial statements and notes, the annual information form and certain other documents required by regulatory authorities. It also reviews the Management's Discussion and Analysis, which is included in this annual report. The Committee met seven times in 2001 and held separate meetings with the external auditors at each of those meetings.

UNITHOLDER COMMUNICATIONS Investor Relations acts as an intermediary to provide unitholder feedback to the Board of Directors and management. Contact numbers and addresses are on the next page.

2001/2002 CHANGES In 2001, E. Osler resigned as an officer and R.D Conner was appointed an officer.

TRANSALTA POWER, L.P. DIRECTORS

T. Iain Ronald
Chair

Ian A. Bourne
Jan Carr
Terence Dalgleish
Randall J. Findlay
James W. Kemp

TRANSALTA POWER, L.P. OFFICERS

Ian A. Bourne
President

Marvin J. Waiand
Vice-President, Finance

Rodger D. Conner
Secretary

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TransAlta Power, L.P.
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